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**ABSTRACT**

The problem of loan payment delinquency in the Health Professions and Nursing Student Loan Programs was reviewed. Problems that schools have had in billing and collecting outstanding loans and the lack of effective program monitoring by the Department of Health and Human Services (DHHS) were assessed, along with the DHHS' efforts to correct the problems. Specifically, the review focused on: the accounting, billing, and collection policies and procedures of 23 colleges; the amount of delinquent loans, bad debts, and federal funds held; and 1,430 student loan files. It was found that too little emphasis was placed on billing and collection, resulting in 28 percent of borrowers being behind in their payments. Some schools held large amounts of federal funds and some invested the funds but did not return the earnings to the programs. It is concluded that the program provides borrowers little incentive to repay loans promptly, although many delinquent borrowers have good credit ratings in the private sector. Although the DHHS has neither effectively monitored collection activities nor kept accurate accounting records, the agency is taking administrative actions and making legislative proposals that will strengthen the collection effort. Recommendations to remedy the loan delinquency problem are offered. (SW)

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REPORT BY THE  
**Comptroller General**  
OF THE UNITED STATES

## **Actions Underway To Reduce Delinquencies In The Health Professions And Nursing Student Loan Programs**

Schools GAO reviewed have placed too little emphasis on billing and collecting loans from students in health and nursing programs with the result that more than 28 percent of borrowers are behind in their payments. GAO found also that some schools hold large amounts of Federal funds and some invest the funds but do not return the earnings to the programs.

The Department of Health and Human Services, which has overall management responsibility for the programs, has neither effectively monitored collection activities nor kept accurate accounting records.

However, the Department is taking administrative actions and making legislative proposals that will strengthen the collection effort.

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON D.C. 20548

B-207362

The Honorable Charles H. Percy  
Chairman, Subcommittee on Energy,  
Nuclear Proliferation, and Government  
Processes  
Senate Committee on Governmental Affairs

Dear Mr. Chairman:

This report responds to your November 4, 1981, request that we look into the problem of loan payment delinquency in the Health Professions and Nursing Student Loan Programs. The report discusses problems the participating schools have had in billing and collecting outstanding loans and the lack of effective program monitoring by the Department of Health and Human Services. It also addresses the Department's efforts to correct the problems.

As arranged with your office, unless you publicly announce its contents earlier we plan no further distribution of this report until 7 days from its date. At that time we will send copies to the Director, Office of Management and Budget, the Secretary of Health and Human Services, and other interested parties.

Sincerely yours,

A handwritten signature in cursive script, reading "Charles A. Bowsher", is written over the typed name.

Comptroller General  
of the United States

COMPTROLLER GENERAL'S  
REPORT TO THE SUBCOMMITTEE  
ON ENERGY, NUCLEAR  
PROLIFERATION, AND  
GOVERNMENT PROCESSES,  
SENATE COMMITTEE ON  
GOVERNMENTAL AFFAIRS

ACTIONS UNDERWAY TO REDUCE  
DELINQUENCIES IN THE HEALTH  
PROFESSIONS AND NURSING  
STUDENT LOAN PROGRAMS

D I G E S T

On November 4, 1981, the Chairman, Subcommittee on Energy, Nuclear Proliferation, and Government Processes, Senate Committee on Governmental Affairs, requested that GAO report on the repayment of loans made under the Health Professions and Nursing Student Loan Programs. On December 8, 1981, GAO testified before the Senate Committee on Governmental Affairs on the status of its review.

Congress created these programs in response to an anticipated national shortage of doctors, nurses, and other health professionals. To participate, schools must provide funds equal to at least one-ninth of the amount they received for the programs from the Federal Government. Schools make low interest loans to eligible students. Repayments are returned to the programs and made available for additional loans. The recycling of funds continues as long as the school participates in the programs.

More than 1,000 institutions are participating in the Health Professions and Nursing Student Loan Programs and more than \$700 million in Federal funds has been provided. The Department of Health and Human Services (HHS) has overall management responsibility but participating schools are responsible for making loans and collecting payments. The Government has no loan collection authority for the programs.

SCHOOLS GENERALLY DID NOT COMPLY  
WITH COLLECTION REQUIREMENTS

According to the latest data available from HHS, more than 28 percent of borrowers in the Health Professions and Nursing Student Loan Programs were delinquent in payments by 90 days or more. More than \$34 million was delinquent on loans with principal amounts totaling \$77 million.

The 23 participating schools GAO reviewed generally placed too little emphasis on billing and collection. GAO found that schools did not always follow the "due diligence" requirement of agency program regulations in collecting outstanding loans. (See pp. 5-10.) For instance:

- Promissory notes were not properly controlled.
- Interviews were not always conducted with borrowers before they left school.
- Borrowers were not properly billed.
- Followup action on delinquent debts was not adequate.

Many borrowers with delinquent loans were able to pay but did not. Commercial credit bureau reports obtained by GAO indicated that many borrowers with delinquent Government loans had a history of paying their private sector creditors. For example, one borrower who was delinquent for over 7 years on a student loan with a balance of \$3,288 had recently obtained a \$220,000 real estate loan. (See pp. 16-17.)

#### SCHOOLS HELD LARGE AMOUNTS OF PROGRAM FUNDS

Participating institutions had accumulated Federal funds which may be in excess of their immediate needs. The 23 schools GAO reviewed held a total of \$3.5 million in funds for the two programs at the end of the 1981 school year. Twelve of the schools held more than \$100,000; one school held more than \$600,000. (See pp. 20-21.)

The law requires that any interest earned from invested program funds be returned to the programs. GAO found that 13 of the schools reviewed invested idle program funds in interest-bearing accounts. However, only one school returned all interest earnings to the appropriate program and two schools returned part of the earnings. The remaining 10 schools that invested Government money used the interest income to finance other school operations. (See p. 22.)

HEALTH AND HUMAN SERVICES  
HAS NOT ADEQUATELY MANAGED  
THE PROGRAMS

The Department of Health and Human Services' inadequate administration of the programs is one of the primary reasons for debt collection problems at the schools. In a May 1974 report, GAO outlined problems at participating schools for the Health Professions Student Loan Program similar to those identified during its current review. GAO recommended that the Department (1) encourage schools to aggressively collect loans, and (2) closely monitor schools' collection efforts.

At that time HHS agreed to more aggressively monitor the program, acknowledging it had depended too heavily on the schools to use good management procedures, and had devoted inadequate resources to monitoring. (See p. 11.)

However, the Department did not follow through. Program officials attributed the continuing lack of management oversight to insufficient staff resources and to the low priority placed on collection. (See pp. 12-15.) GAO's current review disclosed that:

- Onsite assessments of the schools' program administration had been sporadic and few.
- A large backlog of schools' operating reports were awaiting review.
- Loans considered uncollectible had not been reviewed.
- School programs had rarely been audited.

Also, GAO found the program provides little incentive for borrowers to repay their loans promptly. Interest rates for the Health Professions and Nursing Student Loan Programs vary from 3 to 9 percent depending on when the loan was made. Authorizing legislation provides only for a \$1 assessment in the first month and a \$2 assessment for each subsequent month a borrower is delinquent.

In today's economic environment, a delinquent borrower finds it more advantageous to pay private sector debts or invest the funds than to repay student loans. (See p. 16.)

#### CURRENT FINANCIAL STATUS OF THE LOAN PROGRAMS IS UNKNOWN

Compounding these problems, HHS' accounting records did not accurately show the financial status of the loan programs. GAO found that the Department had not recorded the Government's share of canceled loans--estimated to be \$66 million. GAO also noted that the Department did not record interest earned on student loans. Since the Government's share of program funds reverts to the Government when the programs terminate or a school withdraws from the programs, it is imperative that interest income be recorded. (See pp. 25-26.)

In addition, HHS had written off only \$40,000 in loans as uncollectible since the inception of the programs almost 20 years ago, even though some loans had been delinquent for many years. (See p. 27.)

#### RECOMMENDATION TO THE CONGRESS

GAO recommends that the Congress amend authorizing legislation for the Health Professions and Nursing Student Loan Programs to authorize the assessment of additional late payment charges on delinquent loans. (See p. 18.)

#### RECOMMENDATIONS TO THE SECRETARY OF HEALTH AND HUMAN SERVICES

GAO recommends that the Secretary of Health and Human Services ensure that participating schools exercise due diligence in billing and collecting outstanding loans, and that schools that continue to have excessive delinquency rates be denied future funds and not be allowed to make additional loans. (See p. 19.)

GAO also recommends that the Department exercise its overall management responsibility for the programs through such actions as:

- Adopting delinquency rate standards to be used to determine whether a school could make future loans. (See p. 19.)
- Periodically assessing participating schools' financial management of the programs and, if due diligence requirements have not been followed, recover from the school the Federal share of any uncollectible loans. (See p. 19.)

- Requiring that the schools' annual operating reports be reviewed and ensuring that all applicable financial data shown on the reports are accurately recorded in the Department's accounting system. (See p. 19.)
- Determining the amount of excess cash held by the schools and returning such amounts to the Federal Government. (See pp. 22-23.)
- Improving the accountability and financial reporting of the programs. (See p. 29.)

#### AGENCY ACTIONS

The Department's actions since the December 1981 hearing have been most responsive. Its decision to address these longstanding problems is encouraging. The actions include:

- Issuing policy memoranda in March 1982 and September 1982 reemphasizing the need to follow due diligence requirements and outlining the actions being taken to improve collection practices and reduce delinquencies.
- Developing an automated system to facilitate monitoring the progress of schools in collecting delinquent loans, with quarterly reports required beginning September 30, 1982.
- Developing a delinquency rate standard for the Health Professions Student Loan Program and including it in a draft regulation. The regulation would require that after March 1983, institutions with delinquencies in excess of the standard would receive no new funds, and could make no new loans.

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GAO did not obtain official agency comments. However, the matters covered in the report were discussed with HHS officials, and their comments were considered in preparing the report.

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ABBREVIATIONS

|     |                                         |
|-----|-----------------------------------------|
| GAO | General Accounting Office               |
| HHS | Department of Health and Human Services |

## CHAPTER 1

### INTRODUCTION

This report continues our longstanding effort to improve debt collection. On November 4, 1981, the Chairman, Subcommittee on Energy, Nuclear Proliferation, and Government Processes, Senate Committee on Governmental Affairs, requested that we report on the repayment of loans made under the Health Professions and Nursing Student Loan Programs. (See app. I.) These programs are administered by the Department of Health and Human Services (HHS). On December 8, 1981, we testified before the Senate Committee on Governmental Affairs on the status of our review.

Debts owed the Federal Government are enormous and growing each year. Federal agencies reported that receivables due from U.S. citizens and organizations exceeded \$180 billion at the beginning of fiscal 1982. Of this amount, \$33 billion due from U.S. citizens and organizations was reported delinquent--a 45-percent increase in the last 2 years. About \$13 billion of the delinquent amount is nontax debt. More than \$1 billion in uncollectible receivables is being written off each year, and about \$8 billion more will be written off over the next several years.

The President has given debt collection high priority and many initiatives are underway Government-wide to improve collection practices. In October 1982 the President signed into law the Debt Collection Act of 1982. This legislation will remove many of the obstacles now preventing Federal agencies from using collection tools that are widely used in the private sector.

### PROGRAM DESCRIPTION

In response to the anticipated national shortage of doctors, nurses, and other health professionals, the Congress enacted the Health Professions Student Loan Program (Public Law 88-129) in 1963 and the Nursing Student Loan Program (Public Law 88-581) in 1964. The original legislation has been amended several times--broadening eligibility for the loans, changing the interest rates, and providing for loan deferments and cancellations.

The legislation provides for annual appropriations of funds to be awarded to schools participating in the two programs. To participate, schools must share in funding by matching at least one-ninth of the amount received from the Government. Participating schools also receive Federal moneys for the Health Professions and Nursing Student Scholarship Programs and may transfer up to 20 percent of these scholarship funds to the corresponding loan programs and vice versa.

The schools are to use the loan program funds to make low interest loans to eligible health professions and nursing students,

and as loans are repaid the money collected is reloaned. Recycling of funds continues as long as the school participates in the programs. All money due the Federal Government must be returned when a school discontinues its participation in the programs or when the programs are terminated by the Government.

Federal funds have been given to approximately 1,400 participating institutions (more than 1,000 institutions are currently active in the programs) with more than \$700 million awarded since 1963. The Congress appropriated about \$11.6 million for the programs for fiscal 1982. In addition, under current legislation schools are allowed to reloan until December 1986 moneys they collect from loan payments.

#### PROGRAM ADMINISTRATION

The Department of Health and Human Services has overall management responsibility for the programs. Since November 1980, HHS' Health Services Administration has been responsible for program administration--formerly assigned to the Health Resources Administration. This includes awarding funds to participating institutions and then monitoring to ensure that the funds are used in accordance with Federal program and fiscal regulations. Since 1974 the Health Services Administration has been responsible for maintaining the accounting records for the two loan programs and for preparing financial reports, including reports to the Department of the Treasury. It reported loans receivable of about \$595 million for the two programs as of July 30, 1981.

The Health Professions Student Loan Program provides loans to full-time students not to exceed the cost of tuition plus \$2,500 a year. The Nursing Student Loan Program provides loans to full- or part-time students not to exceed \$2,500 per year. The aggregate of all loans made to an individual under the Nursing Student Loan Program cannot exceed \$10,000. Both programs provide for repayment in equal or graduated installments over a 10-year period, beginning 12 months after course completion for health professionals and 9 months after completion for nurses.

Once the repayment period starts, a borrower may be eligible for periods of deferment during which interest does not accrue. To receive a deferment, an individual must be pursuing advanced professional training, or serving in the military service or the Peace Corps. Also, both programs provide for the cancellation of up to 85 percent of the loan if the borrower serves in a designated shortage area where health professionals and nurses are critically needed. In addition, the Nursing Student Loan Program permits the cancellation of up to 85 percent of the loan if the borrower is employed full time as a professional nurse in a public or nonprofit organization. To qualify for a deferment or cancellation, the borrower must file a certification with the school making the loan. In the case of a cancellation, the Federal Government is to reimburse schools for their share of the loan.

Participating schools have a wide range of administrative responsibilities under the programs. These include making loans to eligible students; processing requests for loan repayments, deferments, and cancellations; collecting loans due from former students; requesting writeoffs of uncollectible loans; and reporting annually to the Health Services Administration on the operation and status of the loan programs. The Government has no reversionary right to collect loans that the schools have been unable to collect, but may hold the school liable for the Government's share of the loan if the school has not followed "due diligence" 1/ in collecting the loans.

#### OBJECTIVES, SCOPE, AND METHODOLOGY

This work is part of our continuing effort to review debt collection in the Federal Government. It focuses on the Federal funds provided to participating institutions for loan to health professions and nursing students and on actions taken to ensure that such loans are repaid. This review follows up on our May 1974 report titled "Congressional Objectives of Federal Loans and Scholarships to Health Professions Students Not Being Met" (B-164031(2)). In that report we made recommendations for strengthening the accounting and financial management for the Health Professions Student Loan Program.

The review was performed in accordance with generally accepted government audit standards.

Our objectives were to determine whether (1) HHS was effectively monitoring activities of participating schools and (2) participating schools were aggressively collecting loan payments and properly administering the programs. To attain these objectives we:

- Assessed the Department's policies and procedures for administering the programs and monitoring participating schools.
- Assessed accounting, billing, and collection policies and procedures at 23 participating schools.
- Reviewed billing and collection systems at these schools to determine their adequacy.
- Reviewed reports submitted by the schools showing the amount of delinquent loans, bad debts, and Federal funds held.
- Reviewed 1,430 student loan files at the 23 schools.

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1/The "due diligence" requirements are explained on p. 5.

Our work was performed at the Health Resources Administration and the Health Services Administration in Washington, D.C., and at 23 schools that participated in the Health Professions and Nursing Student Loan Programs. Appendix II lists these 23 schools.

Based on data reported by the 23 schools, as of June 30, 1982, over 5,100 of the borrowers in a repayment status were delinquent 90 days or more. The total amount of outstanding delinquent principal exceeded \$10 million. In addition, the delinquency rate for schools we reviewed ranged from 6 percent to 66 percent in terms of the number of students delinquent. In terms of dollars delinquent, the schools' delinquency rate ranged from 4 percent to 84 percent.

The Department's Office of the Inspector General has also recently reviewed the Health Professions and Nursing Student Loan Programs. That review was performed at 37 schools--9 of which were included in our review. Details of their review are discussed in chapter 2.

To obtain information on delinquent borrowers, we contracted with a commercial credit bureau to obtain its credit reports. We then analyzed the credit reports to determine delinquent borrowers' ability to repay their outstanding loans and their credit worthiness in the private sector. The credit bureau we used did not have reports on some individuals. There are several major credit bureaus, and an individual may or may not have had a report on file with another bureau.

Subsequent to December 8, 1981, hearings before the Senate Committee on Governmental Affairs we assessed the Department's actions to correct the problems identified during our review.

We did not obtain official agency comments. However, the matters covered in the report were discussed with HHS officials and their comments were considered in preparing the report.

## CHAPTER 2

### AGGRESSIVE BILLING AND COLLECTING AND INCREASED MANAGEMENT EMPHASIS ARE NEEDED

According to data reported to the Health Services Administration by the vast majority of the actively participating institutions, as of June 30, 1981, (the most recent data available) more than 28 percent <sup>1/</sup> of the health profession and nursing student borrowers in loan repayment status were delinquent 90 days or more. More than \$34 million was delinquent on loans with principal amounts totaling \$77 million.

With few exceptions, the participating schools we reviewed placed low priority on the billing and collecting of health profession and nursing student loans. Efforts to encourage borrowers to repay their loans were generally inadequate. In addition, the Department of Health and Human Services, which has overall management responsibility for the programs, had not effectively monitored participating schools' collection efforts.

The Department has recognized the importance of improving its program oversight and reducing the high delinquency rate. It has taken extensive actions to correct the problems we identified.

#### PARTICIPATING SCHOOLS ARE REQUIRED TO EXERCISE DUE DILIGENCE IN COLLECTING

HHS regulations require that schools participating in the Health Professions and Nursing Student Loan Programs exercise and document "due diligence" in billing and collecting outstanding loans. Due diligence includes

- properly executing and safeguarding promissory notes;
- conducting an exit interview with borrowers before they leave school, at which time a repayment schedule is agreed upon and certain information, such as a forwarding address, is secured;
- keeping a written record of the exit interview including a signed copy of the repayment schedule;

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<sup>1/</sup>Schools originally reported a 30-percent delinquency rate. During Dec. 1981 and Jan. 1982, HHS asked schools to verify the information reported. In Feb. 1982, revised delinquency data showed a 20-percent rate. However, the Department included loans that had been fully repaid. These loans were not included in the previously reported delinquency rate. We excluded these loans in calculating a delinquency rate of over 28 percent.

- establishing and maintaining regular billing and followup procedures as long as any loan remains outstanding;
- using a commercial skiptracing organization or performing the equivalent service with institutional personnel to locate borrowers;
- engaging a collection agency or credit organization to supplement collection activities; and
- litigating when a borrower fails to make loan payments.

The Federal Government will assume the loss of its share of an uncollectible loan--usually 90 percent of the loan--if the school has exercised due diligence in the collection process. If not, the schools must bear the entire loss and reimburse the Federal Government for its portion of the loan.

#### SCHOOLS GENERALLY DID NOT COMPLY WITH DUE DILIGENCE REQUIREMENTS

Based on data reported by the vast majority of the participating institutions, as of June 30, 1981, more than 63,000, or 28 percent, of the borrowers in a repayment status were delinquent 90 days or more. The amount of outstanding principal exceeded \$77 million and payments totaling more than \$34 million were delinquent.

The 23 schools we reviewed generally did not comply with all requirements of due diligence and have not focused sufficiently on the billing and collecting of student loans. This contributed to the rate of delinquency. For the schools we reviewed, the outstanding delinquent principal exceeded \$10 million, and more than 5,100 borrowers were delinquent 90 days or more.

The more serious results of not complying with the due diligence requirement included the following.

- Promissory notes were lost and incomplete.
- Exit interviews were not always conducted.
- Borrowers were not always properly billed.
- Followup actions on delinquent loans were not adequate.
- Collection agencies, credit bureaus, and litigation were rarely used.
- School records were often in disarray.

Appendix III summarizes the problems disclosed during our review at the 23 schools. Appendix IV gives the loan delinquency rate for each school by dollars; appendix V gives the rate by number of students.

### Lost and incomplete promissory notes

The promissory note executed by the borrower provides evidence that a debt exists and is a legal document that commits the borrower to repay the obligation. Since the note represents a major asset of the school's loan fund, it must be properly executed and safeguarded. Nevertheless, 11 of the schools we reviewed did not adequately execute and safeguard promissory notes.

At six schools, we found that promissory notes were often unsigned or incorrectly signed. For example, we reviewed 60 student loan files at one school and found that 32 files contained unsigned promissory notes. At five schools, we found instances of missing or misfiled promissory notes. At one of the five schools, officials acknowledged that an entire box of promissory notes had been lost for several years. No one was trying to locate the missing notes; the school simply assumed they were in storage.

Since the promissory note is the document that legally obligates the student to repay the loan, such casual handling can jeopardize the school's ability to collect.

### Exit interviews not conducted

A properly conducted exit interview is an effective tool that can help schools collect outstanding loans. The exit interview provides a final opportunity to secure a borrower's correct address and the name and address of an employer, reaffirm the borrower's responsibility to repay the loan, and make sure the borrower understands the repayment terms.

Program guidelines require that each borrower have an exit interview before leaving school. Because the exit interview is of key importance for future collections, the regulations also specify that a written record of the interview be maintained.

However, only 1 of the 23 schools we reviewed had documentation indicating exit interviews were always conducted as required. Of the 1,430 student borrower files we reviewed, more than 800, or 56 percent, had no record of a properly completed exit interview. For example, at four schools, where we reviewed 240 student loan files, none of the files contained documentation showing that an exit interview had been conducted.

### Borrowers not properly billed

Program guidelines require schools to contact borrowers after they have left school to remind them of the obligation to repay their loans. The regulations further stipulate that schools send borrowers a bill approximately 15 to 30 days before the due date of the first required payment and all subsequent payments.

Nevertheless, eight of the schools we visited had no evidence that borrowers were contacted before the due date of their first payment. More seriously, four of these eight schools, as well as two other schools we visited, did not bill all borrowers who were in repayment status or did not bill them regularly. For example:

- At one school, 103 borrowers who had graduated or left school, owing altogether more than \$162,000, had not been placed on the school's billing system because the school believed they were still enrolled. For 66 of the 103 borrowers, the first annual billing date had passed without the school sending a bill.
- At another school, some borrowers had never been billed because of problems with the school's automated billing system. Bills had not been sent manually.
- Procedures at another school required annual billings, but bills were sent only when time permitted rather than systematically.

In an effective debt collection system, each school would ensure that all borrowers in repayment status were billed regularly. Because of billing weaknesses at many of the schools we reviewed, there was no assurance that all borrowers would be billed or that all funds owed would be repaid.

#### Inadequate followup on delinquent loans

Followup on delinquent loans was also inadequate. Debtors were not contacted when they failed to make payments. Program guidelines specify that delinquent borrowers be contacted 15 days after a payment is due, to be followed by two additional contacts at 30-day intervals if the borrower still does not make payment. It is important to follow up promptly and to take swift remedial action when debts become delinquent. Every effort should be made to get the debtor back on schedule before the delinquency becomes serious. This protects both the Government and the debtor.

We found, however, that 12 of the 23 schools had no evidence that past-due notices were sent to all delinquent borrowers. Another seven schools mailed such notices, but did so only sporadically. For example:

- One school simply filed delinquent accounts that were more than a year old without following up, even though school procedures required that such accounts be forwarded to the school's internal collection office.
- Another school was sporadic in sending past-due notices, often failing to contact borrowers for many months or even years, even though the required payments were not made.

--Loan files at another school included letters from borrowers stating that they had not made payments--for more than 3 years in one case--because they had not been asked to do so by the school.

Need to use collection agencies,  
credit bureaus, and litigation

Program guidelines state that as part of due diligence a school must make every effort and exhaust all means available to collect outstanding loans. The guidelines call for use of collection agencies, credit bureaus, and litigation to supplement the school's collection effort. But the schools we reviewed were generally not using these collection tools.

Eighteen of the 23 schools reviewed either did not use collection agencies or did so rarely. One school, although able to refer severely delinquent loans for offset against State income tax refunds, had not done so for well over a year at the time of our review. A subsequent on-site program assessment by HHS showed that, acting on our suggestion, the school is now referring delinquent health professions and nursing student loans to collection agencies.

Program guidelines encourage schools to report delinquent borrowers to credit bureaus, stating that "notifying credit associations regarding an individual's credit rating has a salutary effect on most individuals whose payments are substantially overdue." This is a common collection tool used in the private sector. Although some schools did use the services of credit bureaus to help locate missing borrowers, none referred the names of delinquent borrowers for the purpose of affecting their credit rating.

Also, 19 of the 23 schools did not refer delinquent loans to litigation, or did so only rarely. Although program guidelines provide that the cost of litigation can be charged to the program, very few schools availed themselves of the opportunity to collect outstanding loans through this means.

Acting on our findings, the Department published in the Federal Register on August 31, 1982, proposed changes to its regulations which, among other things, would require schools to use credit bureaus, collection agencies, and litigation in collecting delinquent loans. The present program guidelines are advisory, not mandatory.

Inadequate recordkeeping practices  
affect collection effort

Program guidelines require that schools maintain accurate loan records, including student loan files with evidence of (1) loans made and (2) the school's billing and collection efforts. To ensure that collection activities are carried out promptly and systematically, the regulations also require that schools age

delinquent loans. Maintaining accurate, reliable, and up-to-date records is the foundation for following up on delinquent loans.

Despite this requirement, none of the schools we visited maintained accurate or complete information in the student loan files. For example:

- We were unable to calculate a loan delinquency rate for 8 of the 23 schools because they did not maintain delinquency listings.
- Eleven of the schools we reviewed could not produce all of the loan files we requested.
- At another school, two loan aging schedules were prepared, one manually and the other with the aid of a computer. The schedules did not agree and school officials were not able to explain the difference, nor could they ascertain which listing was correct.
- Twelve schools did not keep records of billing and delinquency notices sent to borrowers.

Reasons for schools not meeting  
due diligence requirement

A major factor that kept schools from meeting the due diligence requirement was that 15 of the 23 schools had no written procedures for collecting loans. Writing the procedures is the first step in developing a viable debt collection program. Written procedures should provide a road map of actions to take when a borrower becomes delinquent. Without adequate procedures, it is difficult to ensure that all possible actions to collect outstanding loans have been taken and that due diligence requirements of the programs have been met.

Another factor was the insufficient number of staff assigned to collection. For instance, one school, with responsibility for more than 44,500 loans, had only one person assigned to collection activities full time. To ensure that all loans are collected, the schools must provide sufficient qualified personnel to manage and operate their debt collection programs.

As discussed in the following section, they said there was little pressure by the Department of Health and Human Services to aggressively collect loans made under the two programs. Some school officials pointed to the fact that a school's loan delinquency rate did not affect its annual program funds. They stated that primary emphasis had been placed on reducing the delinquency rate for the National Direct Student Loan Program, because a high delinquency rate in this program can result in a reduction or elimination of Federal funds.

We believe the same incentive should be applied to the Health Professions and Nursing Student Loan Programs. Institutions with

delinquencies in excess of a predetermined rate would receive no new program funds and would be prohibited from reloading any collected funds until the delinquency rate is reduced to the standard set by the Department.

Acting on our findings, HHS has developed a delinquency rate standard for the Health Professions Student Loan Program. The proposed regulation change was published in the Federal Register on August 31. If the proposed change is adopted, then by March 31, 1983, the delinquency rate for all participating institutions will have to be reduced to 5 percent. The Department plans to require participating schools to submit the delinquency rate in terms of dollars and borrowers delinquent. The lower of the two rates will be used to determine whether the schools are complying with the standard. Any institution with a delinquency rate above the standard would receive no new funds, and could make no new loans until its delinquency rate meets the standard. Department officials stated that a similar standard is being developed for the Nursing Student Loan Program.

Also, in March 1982 HHS issued a policy memorandum reemphasizing to participating schools their responsibility to comply with the due diligence requirement and thereby reduce the delinquency rates in the programs. The Department is considering a number of changes to the program regulations that would strengthen debt collection, such as requiring monthly repayment schedules and including in all promissory notes a provision permitting the school to collect the outstanding balance of a loan if the borrower becomes delinquent.

In addition, on July 12, 1982, the Department sent to the Congress legislative proposals that would (1) allow a school, at the discretion of the Department, to transfer a note to the Federal Government for collection and (2) allow the Internal Revenue Service to release the addresses of delinquent borrowers to HHS and participating schools. We believe enactment of these proposals will help reduce delinquent debts.

#### HHS NEEDS TO MORE CLOSELY MONITOR THE PROGRAMS

We have reported on numerous occasions over the past several years that Federal agencies have generally given debt collection a low priority. They have emphasized disbursing funds rather than collecting them. This was clearly the case with respect to the Health Professions and Nursing Student Loan Programs.

In our view, the inadequate administration of the programs by HHS is one of the primary reasons for the longstanding problems at the schools. In a May 1974 report titled "Congressional Objectives of Federal Loans and Scholarships to Health Professions Students Not Being Met" (B-164031(2)), we outlined debt collection problems at participating schools for the Health Professions Student Loan Program similar to those identified during our current review. We recommended that HHS

- encourage participating schools to establish good internal controls, keep better operating records, and develop aggressive and thorough collection procedures; and
- closely monitor the program at participating schools to ensure full compliance with program regulations, instructions, and guidelines.

The agency said it would more aggressively monitor the program, acknowledging that it had depended too heavily on the schools to use good management procedures and had devoted inadequate resources to monitoring. However, it did not follow through. Program officials attributed their continued inadequate oversight to a shortage of staff resources and to the low priority placed on collection.

#### Few onsite assessments have been performed

Onsite assessments of the schools' program administration have been sporadic and few. Responding to our 1974 report, the Department said it would more aggressively monitor participating schools' administration of the Health Professions Student Loan Program. However, fewer than 400 assessments altogether were performed during 1977 and 1978, and agency officials told us that very few assessments were performed in the following 2 years.

HHS officials cited the lack of sufficient resources as the primary cause for the low number of onsite assessments. Of the 23 schools we reviewed, only 9 had an onsite assessment before June 1981, when the agency resumed the assessments using contract personnel.

HHS officials acknowledged that onsite assessments are important for improving schools' collection programs. Acting on our suggestion, HHS completed more than 130 assessments between June and September 1981. However, we are concerned that loan delinquency rates were not used as a criterion for selecting schools to be assessed, and that the financial management aspects of the two programs may not have been adequately evaluated by the assessment teams.

Before June 1981, the Department did not require participating schools to report loan delinquency rates, thereby precluding the use of the rates in selecting schools for assessment. A school's loan delinquency rate is an indication of its efforts to collect outstanding loans. Those schools with high delinquency rates should receive primary attention.

In discussions with Health Service Administration officials, we also found that for the onsite assessments performed between June and September 1981, emphasis had been placed on evaluating program administration, with limited attention given to financial management. It is essential that schools' use of due diligence

and adherence to sound financial management practices be an integral part of onsite assessments. The assessment team should make sure that a school's billing and collecting system is operating properly and that each school maintains a delinquency list and ages all delinquent debts. The assessment team should also check to see that schools are using credit bureaus, collection agencies, and litigation to the proper extent.

The Department has recognized the importance of onsite assessments. During fiscal 1982, more than 350 institutions were visited. The Department provided technical assistance to the schools by evaluating program operations, identifying program strengths and weaknesses, and recommending improvements. This action is responsive to our findings. But it must be a sustained effort and periodic onsite assessments must continue to receive priority.

#### Large backlog in reviewing annual operating reports

HHS requires an annual operating report on each school's Health Professions and Nursing Student Loan Program. The report provides financial information such as the total amount of cash on hand, loan awards, collections, and interest income. If properly used, the report can be an effective monitoring tool for evaluating an institution's administration of the program. Department officials, however, told us that, because of staff shortages, annual operating reports have not been given timely review. Unless they are reviewed promptly, their usefulness as a monitoring tool is seriously limited.

As of October 1982, 80 percent of the 300 health profession loan reports and only about 50 percent of the 1,100 nursing student loan reports for the 1980 school year had been reviewed. In addition, according to agency officials, many annual reports from previous years with "problems," such as discrepancies in the amount of program funds a school had withdrawn during the year, also had not been reviewed.

In December 1980 an HHS task force recommended that an automated system be developed to process the schools' annual operating reports immediately upon receipt. The task force found that the manual review process the Department was using was painstakingly slow and that following up on errors found during the review was equally slow.

In addition, as we mentioned on page 12, until June 1981, adequate information to permit the computation of delinquency rates was not reported to the Department. Although annual reports included details on repayments, delinquency rates could not be computed from the data provided, nor did the Department require that this information be separately reported until it requested delinquency information as of June 30, 1981. We suggested to the Department that an aging of delinquent loans be included as part of the annual report.

The Department has again been responsive to our findings and is developing an automated system to facilitate the recording of information included in the annual operating report. The system should enable the Department to review the reports more promptly and completely. In addition, beginning with the quarter ended September 30, 1982, and each quarter thereafter, participating institutions will be required to provide an aging of all loans more than 31 days delinquent. These planned actions, if carried through and successfully implemented, will address our concerns in this area.

#### Uncollectible loans not reviewed

Before October 1980, program guidelines erroneously stated that legislation prohibited the writeoff of uncollectible loans until the termination of the programs. Although the Department had changed its policy on this matter many years before, it did not officially inform the schools until new program guidelines were issued in October 1980. Consequently, schools had submitted few requests to write off loans considered uncollectible.

As part of the request for permission to write off an uncollectible loan, a school must document that it has followed due diligence in its collection efforts. By reviewing such evidence, the Department has an opportunity to monitor the school's collection efforts.

As of November 1981, only 33 schools had ever requested permission to write off a loan. Since inception of the programs nearly 20 years ago, schools had asked to write off only 204 uncollectible loans amounting to \$230,000, and of these, only 55 loans amounting to about \$40,000 had been written off. Although well aware that only a few schools had asked to write off loans, Department officials did not plan to encourage such requests, stating they did not have staff to review the requests.

In this regard, acting on our findings, the Department has required institutions with uncollectible loans to provide evidence that they have exercised due diligence and are unable to collect. This makes writeoff permissible and provides a basis for requiring reimbursement to the Government for the Federal share of the loan where due diligence has not been followed. We were told that since November 1981, an additional 87 schools have requested to write off 456 loans amounting to \$624,363. As of October 1982, the Department had approved the writeoff of 95 of these loans amounting to about \$162,000.

#### Programs rarely audited

Public Law 95-623 (Nov. 9, 1978) requires that schools provide for a biennial audit of the Health Professions Student Loan Program to determine the fiscal condition of their programs and the adequacy of their management practices. This would give HHS

another tool for monitoring the programs. The first such audit was to have been completed by September 30, 1980, with audit reports submitted to the Department after completion. Program regulations strongly recommend that the schools also provide for periodic audits of the Nursing Student Loan Program and that reports of such audits also be submitted to the Department.

However, as of November 1981, the Department had received reports from only 8 of the 300 schools participating in the Health Professions Student Loan Program and from only 18 of the 1,100 schools in the Nursing Student Loan Program. The agency had not followed up on the audit requirement and did not know if the schools had provided for the audits. Again, Department officials cited a lack of staff as the reason for not overseeing this program requirement.

The previously mentioned March 1982 policy memorandum to the schools reminded them of their responsibility to have the Health Professions Student Loan Program audited biennially. The Department, through its onsite assessment program, must follow up in this area.

#### PROGRAM PROVIDES BORROWERS LITTLE INCENTIVE TO REPAY LOANS PROMPTLY

Compounding the lack of emphasis by the schools and the Department on the collection of the health professions and nursing student loans was that the program provides little incentive for borrowers to repay their loans promptly. The assessment of an additional charge on delinquent debts is one way to ensure that borrowers repay their loans when due.

The interest rate assessed the Health Professions and Nursing Student Loan Programs varies from 3 percent to 9 percent depending on when the loans were made. For loans made after October 1981, a 9-percent interest rate is assessed under the Health Professions Student Loan Program and a 6-percent rate is assessed under the Nursing Student Loan Program. The favorable interest rate remains in effect even after an individual borrower becomes delinquent. Authorizing legislation provides only for a \$1 assessment on the first month and a \$2 assessment for each subsequent month a borrower is delinquent.

In our October 1978 report titled "The Government Needs To Do a Better Job of Collecting Amounts Owed by the Public" (FGMSD-78-61, Oct. 20, 1978), we reported that Federal agencies that apply a high interest rate to delinquent debts usually collect amounts due the Government without delay. On the other hand, we found that interest rates on delinquent amounts due most agencies were well below the rate of interest that businesses or individuals can earn on investments or must pay to borrow funds. This gave debtors little incentive to pay these agencies promptly.

A similar situation exists in the Health Professions and Nursing Student Loan Programs. In today's economic environment a delinquent borrower finds it more advantageous to repay private sector debts or invest the funds than to repay outstanding obligations to the Government.

The legislation for the Health Professions and Nursing Student Loan Programs now limits charges on delinquent debts to \$1 and \$2, as discussed above. Legislation is needed to permit the assessment of additional late payment penalty charges once a loan becomes delinquent. This would give borrowers a positive incentive to keep their loans current, and the Government would be reimbursed for the extended use of its money. Specific language to amend the authorizing legislation for these programs is included in appendix VI.

MANY DELINQUENT BORROWERS HAVE  
GOOD CREDIT RATINGS IN THE PRIVATE SECTOR

Many borrowers with delinquent health professions and nursing student loans have the ability to repay the money they owe. Commercial credit bureau reports showed that most selected borrowers with delinquent loans had a history of paying their private sector creditors. However, because the schools had not aggressively pursued collection, borrowers were able to ignore their responsibility to repay student loans.

We obtained credit reports from a major credit bureau for 100 randomly selected delinquent borrowers. These reports contain information provided by creditors about individuals. The reports show dollar lines of credit, delinquent accounts, and accounts on which collection action has been taken. Also, they often show place of employment and most recent address. Credit bureau reports do not contain an overall "credit rating." Instead, credit decisions are made by individual user organizations based on an evaluation of the data in the reports.

Although the United States has more than 2,000 credit bureaus, five major companies dominate the industry. These five companies, made up of owned or affiliated local bureaus, cover about 75 percent of the Nation. Complete national coverage would require involvement of small independent bureaus, most of which are loosely affiliated through membership in a trade association and/or a national marketing association.

Credit reports were available from the commercial credit bureau for 54 of the 100 delinquent borrowers in our sample. The 46 borrowers for which reports were not available may have had a credit report at some other bureau. Our review of the credit reports showed that

--39 delinquent borrowers, or 72 percent, had what we considered good credit reports; that is, payments were current on their private sector debts;

--31 delinquent borrowers, who had a good credit rating, had been extended private sector credit exceeding the amount of their outstanding debts to the schools under the Health Professions and Nursing Student Loan Programs. A creditor had, therefore, determined that these borrowers had the ability to repay an amount at least equal to that owed on their delinquent student loans.

Following are specific examples of delinquent borrowers who had good commercial credit reports, but were delinquent from 10 months to 7 years on their health professions and nursing student loans:

--A borrower delinquent for more than 7 years on a student loan with a balance of \$3,288 had recently obtained a loan of \$220,000 to purchase real estate.

--Another borrower, delinquent more than 3 years on a student loan with a balance of \$2,940, had paid off two commercial loans for \$13,200, was current on a \$56,000 loan to purchase real estate, and had a line of credit of \$7,700 with several banks and department stores.

--A third borrower, with a loan balance of \$7,000 delinquent for 10 months, was current on a \$25,000 home improvement loan and a \$12,400 automobile loan. In addition, three banks and a department store reported that the borrower had lines of credit amounting to \$9,900.

--Yet another borrower with a balance of \$1,361 delinquent for almost 3 years, had a line of credit of \$7,400 with a bank and several department stores and had an unsecured bank loan for \$7,500.

--Another borrower, whose loan of \$2,500 was considered uncollectible, obtained automobile loans totaling \$24,600.

These examples illustrate that many borrowers with delinquent health professions and nursing student loans had a good credit rating in the private sector. These individuals had the ability to repay their loans, but schools allowed them to ignore demands for repayment with little or no fear of reprisal or any of the adverse actions that would normally result from not paying debts to private sector creditors. As a result, there is no assurance that all funds due the Government will be collected or that funds will be available to reloan to eligible students in the future.

INSPECTOR GENERAL REPORT  
CONFIRMS GAO FINDINGS

Following our December 8, 1981, testimony, HHS' Office of the Inspector General initiated a review of the Health Professions and Nursing Student Loan Programs. The review was performed at 37 schools--9 of which were included in our review.

In an April 27, 1982, report titled "Review of Medical Doctors Delinquent in Repayments of Health Professions Student Loans," the Inspector General confirmed our finding that the administration of the programs had been inadequate. The Inspector General concluded that the Department had not effectively monitored the schools' billing and collecting activities. In addition, the report said the schools' program administration needed substantial improvement, particularly with regard to carrying out the due diligence provisions of the regulations.

Most of the schools reviewed by the Inspector General were passive in their collection efforts. They generally did not use all of the collection tools available, such as collection agencies and litigation. In many instances, borrowers made no payments on their loans and little was done by the school to collect the money owed.

The Inspector General made a series of recommendations directed at strengthening program oversight by the Department and enforcing the due diligence requirement at the schools. These recommendations are in line with ours, which are detailed below.

#### CONCLUSIONS

The Department has made great strides in recent months in strengthening debt collection for the Health Professions and Nursing Student Loan Programs. The agency's response has been most encouraging. These efforts must be sustained and ongoing actions must be carried through.

Tougher collection practices are needed if schools are to reduce their delinquency rates and recover past due amounts on health professions and nursing student loans. Schools need to follow due diligence requirements including the use of collection agencies, credit bureaus, and litigation when necessary. Further, borrowers must have an incentive to repay their loans. Aggressive followup by the schools and additional charges on delinquent loans are needed.

The primary responsibility for loan collection rests with the schools. The Department should consider using sanctions when schools do not effectively collect, including withholding of Federal funds and suspension from the programs. It is important that schools follow sound loan collection practices or the programs will continue to have a high delinquency rate. HHS must continue to monitor schools' collection practices and to provide oversight and direction.

#### RECOMMENDATION TO THE CONGRESS

We recommend that the Congress amend authorizing legislation for the Health Professions and Nursing Student Loan Programs to

authorize the assessment of additional late payment charges on delinquent loans. Specific language to amend the authorizing legislation for these programs is included in appendix VI.

RECOMMENDATIONS TO THE SECRETARY  
OF HEALTH AND HUMAN SERVICES

We recommend that the Secretary of Health and Human Services periodically assess participating schools' financial management of the Health Professions and Nursing Student Loan Programs, using reported delinquency rates as criteria for selecting schools. As a minimum, to establish adherence to due diligence requirements in billing and collecting outstanding loans, the Department must see that schools:

- Execute and safeguard promissory notes.
- Conduct and document exit interviews.
- Bill all borrowers and follow up on delinquent loans.
- Use collection agencies, credit bureaus, and litigation to the fullest extent.
- Improve accounting systems' recordkeeping practices.
- Develop written procedures and provide sufficient personnel for the collection of outstanding loans.

We also recommend that the Secretary:

- Establish and enforce delinquency rate standards, not allowing institutions that fail to meet these standards to receive additional program funds or to reloan collected funds.
- Direct that schools' annual operating reports be reviewed.
- Identify and review uncollectible loans and permit writeoff only when a school has complied with due diligence requirements and, if these requirements have not been complied with, recover from the school the Federal share of the uncollectible loan.
- Enforce required biennial audits of the Health Professions Student Loan Program and encourage the schools to provide for periodic audits of the Nursing Student Loan Program.

## CHAPTER 3

### SCHOOLS HELD LARGE AMOUNTS

#### OF PROGRAM FUNDS

Institutions participating in the Health Professions and Nursing Student Loan Programs accumulated large amounts of program funds which may be in excess of their immediate needs. Program regulations require that needs be considered before program funds are provided to participating schools. This requirement, however, was not always followed. The 23 schools we visited were holding about \$3.5 million in program cash at the end of the 1981 school year. In addition, some schools let program funds remain idle in non-interest-bearing accounts. More seriously, the schools that invested the excess Federal moneys returned very little of the interest income to the loan programs as required by law.

#### SCHOOLS MUST IMPROVE CASH MANAGEMENT PROCEDURES

Because of ineffective cash management by the Department, participating schools accumulated program funds. For 12 of the 23 institutions we examined, cash balances reported at the end of the 1981 school year exceeded \$100,000, with one school holding more than \$600,000. The 23 schools held a total of \$3.5 million.

We identified two primary causes for the large amounts of Federal funds held by the schools. First, the amount of funds awarded to a participating school was not always based on the school's need. Program funds already held by the school were not considered, nor were anticipated collections.

In some instances, the schools already had sufficient funds available and their request for additional funds should not have been granted. In other instances, only part of the requested funds should have been awarded. For example, one school had program funds on hand of about \$613,000 and during the school year collected more than \$450,000 from loan payments, increasing its total available funds to almost \$1.1 million. Although the school made only about \$623,000 in new loans, it was awarded and drew down \$176,000 in additional Federal funds for that year, leaving a cash balance at the beginning of the 1980 school year of more than \$640,000.

Another reason schools accumulated large amounts of program cash was that the Department of Health and Human Services did not promptly deobligate unused program funds. Although schools are allowed to reloan amounts repaid, any new Federal funds for the programs can legally be awarded to the schools only for the purpose and time period specified (1 year). New program awards not used by the school in the designated period are to be returned to the Government.

To deobligate unused program funds, the Department must compare data submitted by the school on its annual operating report with departmental data on current year awards and drawdowns. After resolving any discrepancies, the unused amount of the award for the specific period is to be removed from the active award list. This precludes the drawing of Federal funds by a school after the award period has expired.

We found that as of October 1982, an estimated 50 percent of 1980 nursing awards and 20 percent of 1980 health professions awards to schools had not been closed out. In addition, awards from earlier years still remained open because differences between the data submitted by the schools on annual operating reports and corresponding data on the Department's accounting system had not yet been reviewed and resolved.

Because annual operating reports were not reviewed and awards were not closed promptly, program funds were being withdrawn by the schools after the award period had expired. One of the 23 schools we reviewed withdrew its 1977, 1978, and 1979 funds during fiscal 1980, while another of the schools we reviewed received part of its 1977 award during 1978.

Aware that schools were holding increasing amounts of Federal funds, the Department in June 1980 requested that the schools determine the amount of excess cash they had on hand and return the money to the Government. A year later, according to program officials, schools had returned about \$5 million in excess Federal funds. However, we found that substantial amounts of Federal funds were still being held by participating schools. The Department needs to follow up by reviewing annual operating reports to determine whether any additional funds can be withdrawn.

In this regard, in its March and September 1982 policy memoranda sent to the schools in response to our finding, HHS reminded the schools that they should carefully review cash needs before requesting funds and that funds allocated should be drawn down only as needed. As discussed on page 14, the Department is developing an automated system to expedite the recording of the annual operating report data. The system should enable the Department to review the reports sooner and more completely and to identify institutions with large amounts of program funds. In addition, as previously discussed, beginning September 30, 1982, participating institutions will be required to submit quarterly debt management reports which will also assist in identifying schools with a large cash balance.

#### INTEREST ON FEDERAL FUNDS NOT ALWAYS RETURNED TO PROGRAM

Besides accumulating large amounts of program funds, we found that three schools let Federal funds remain idle in non-interest-bearing accounts. More seriously, the schools that invested the excess Government money returned very little of the interest income to the programs as required by law.

Health Professions and Nursing Student Loan Program guidelines encourage schools to invest excess funds in short-term securities when they are not needed for making loans. The law requires that earnings from such investments be returned to the programs, thereby increasing the funds available for new loans to eligible students.

Of the 13 schools that invested program funds, only 1 school returned all and 2 schools returned part of the interest earnings to the programs. The remaining 10 schools used the interest income from invested excess Federal money to finance other school operations. This violated the law and deprived future students of loan funds.

In its September 1982 policy memorandum, the Department pointed out to the schools that when they have program funds on hand, the money should be invested in short-term interest-bearing accounts and all interest earned should be deposited in the loan funds. It is of the utmost importance that cash be properly invested and investment income be credited to the programs. Also, the Department needs to determine the extent to which program interest income has been diverted in the past and seek to return these amounts to the loan fund.

#### CONCLUSIONS

The Department of Health and Human Services' recent emphasis on cash management should help prevent schools from accumulating large amounts of Federal funds. Further, the Department must ensure that all Federal funds are properly invested and interest earnings are credited to the program, rather than being used to finance other school operations. In addition, the Department must determine the amount of interest income previously earned on Government money and seek to have these amounts returned to the loan programs. Sustained monitoring and oversight will be necessary. The Department's planned development of an automated system to record financial information reported by the schools is most important.

#### RECOMMENDATIONS

To improve the cash management practices of the Health Professions and Nursing Student Loan Programs, we recommend that the Secretary of Health and Human Services:

- Ensure that program funds are awarded on the basis of need.
- Direct that awards be closed expeditiously.
- Determine the amount of excess cash held by the schools and require such amounts to be returned to the Federal Government.

--Direct that Federal funds be invested in interest-bearing accounts and that earned interest be returned to the programs.

--Ascertain the amount of interest previously earned on Government money and require participating schools to return these amounts to the programs.

## CHAPTER 4

### CORRECT BALANCE OF PROGRAM

#### FUND ACCOUNTS IS UNKNOWN

Compounding the problems discussed in chapters 2 and 3, the Department of Health and Human Services' accounting records did not accurately show the financial status of the Health Professions and Nursing Student Loan Programs. The Department had lost accounting control and did not know the correct balance of the loan funds nor the amount likely to be repaid to the Government.

We found the following:

- The Government's share of the canceled loans--estimated to be \$66 million--had not been recorded in the accounting system.
- The Government's share of interest earned on loans had not been recorded. The Department did not know how much interest was due the Government.
- Although schools were allowed to transfer up to 20 percent of their annual award from the student loan funds to the corresponding scholarship funds, and vice versa, the accounting records were not always adjusted until many years after the transfer of funds. There was no assurance that all such adjustments had been made.
- Only \$40,000 in loans had been written off by the Department since the programs' inception, even though some loans had been delinquent for many years and their collection is unlikely.
- No allowance had been established to cover loans that will be canceled or designated uncollectible in the future.

In addition, we found that the agency had not recorded as a liability at least \$3 million owed to participating schools in payment for their share of loans canceled during the past several years. Lack of funds had prevented the agency from reimbursing the schools as required by law, thus creating a liability for the Government.

#### PROPER RECORDING AND REPORTING OF LOAN RECEIVABLES AND LIABILITIES ARE REQUIRED BY LAW

Proper accounting for the financial and other resources entrusted to an agency is an inherent responsibility of agency managers. The Budget and Accounting Procedures Act of 1950 (31 U.S.C. 3511) specifies that the head of each executive agency is

responsible for establishing and maintaining systems of accounting and internal controls that conform to the principles, standards, and related requirements prescribed by the Comptroller General. In this regard, our Title 2, "Policy and Procedures Manual for Guidance of Federal Agencies," states that each agency must maintain a suitable system of financial and related records so that needed information on resources, liabilities, obligations, expenditures, revenues, and costs can be reported to internal management and to the Congress.

Further, the Treasury Fiscal Requirements Manual requires agencies to annually report their loans receivable balances and related allowance accounts as well as their liability balances. Treasury uses this information to maintain the system of central Federal Government accounts, and to prepare financial reports to the President, the Congress, and the public.

#### LOANS RECEIVABLE BALANCE IS INACCURATE

The reported financial status of the Health Professions and Nursing Student Loan Program funds was inaccurate and unreliable because the accounting system had not been updated. Reports prepared for agency managers and the Treasury did not properly show how much money schools had available for making loans to students and how much money schools must eventually return to the Federal Government. In short, financial accountability and control over program funds had been lost.

#### Loan cancellations not recorded

The loan receivable balance for the two programs--reported to be \$595 million as of July 1981--was overstated by at least \$66 million because the Department had not recorded the Government's share of loan cancellations in the accounting records.

As provided for under the programs, a school may cancel a loan if the borrower serves in an area designated as a shortage area or, in the case of the Nursing Student Loan Program, works for a non-profit agency. Participating schools are responsible for canceling loans and for reporting the canceled amounts to HHS as part of the annual operating report. Although schools generally have been reporting this information, the Department recorded very few cancellations in its accounting system. HHS officials estimated that at least \$66 million in cancellations had not been recorded. Consequently, the loans receivable balance was overstated by at least this amount.

The Department cited a lack of resources as the primary reason for not recording this data in the accounting system. However, in these times of budget constraints and reductions, it is especially important for the Department to make sure all transactions affecting Government resources are accurately and promptly recorded in the accounting system. Unless the system provides reliable financial information, the Government's interest can not be protected to the fullest extent possible.

### Interest income not recorded

The Department also did not record in its accounting system the amount of interest income due the Government from repaid loans. Our analysis of the annual operating reports for the 23 schools we reviewed showed that the Government was due at least \$6.6 million in interest income as of June 30, 1981. Considering that over 1,100 schools were actively participating in the programs, the total amount due the Government must be far greater.

Schools are responsible for collecting the interest on loans in repayment and returning this money to the program funds to be used for making new loans. They are required to report the amount of interest earned on the annual operating report. Although this information was being routinely reported by the schools, the Department did not record the Government's share--about 90 percent of the interest--in its accounting system.

HHS had no idea how much interest each school had collected since 1963. Since the Government's share of program funds reverts to the Government when the programs terminate or a school withdraws, it is imperative that the interest income be recorded. Otherwise, the Government will not know how much it is owed and could lose millions of dollars.

### Fund transfers not promptly recorded

As discussed on page 2, the law authorizes the transfer of Federal funds received for the Health Professions and Nursing Student Loan Programs to the corresponding scholarship programs, and vice versa. The Department, however, did not promptly record in its accounting system such fund transfers by the schools.

Schools may transfer between the loan and scholarship funds up to 20 percent of each program's annual award. They are required to report such fund transfers to HHS on the annual operating reports. For the 23 schools included in our review, we analyzed the annual operating reports for June 30, 1981, and determined that about \$360,000 had been transferred from scholarships to loans while about \$1.6 million had been transferred from loans to scholarships.

As previously discussed, because the Department had a backlog of annual operating reports to review, it had not recorded all transactions affecting the financial status of the program. It may take years to enter all the information on fund transfers into the accounting system. Since the Government's share of loan funds is subject to repayment by the schools, transfers between the loan and scholarship funds must be recorded promptly. By not doing so, HHS has further lost control over Government resources.

Uncollectible loans not written off  
and allowance account not being used

Although participating schools have loaned more than \$700 million to students under the two programs since 1963, the Department had written off only \$40,000 in loans as uncollectible. This was despite the fact that schools are holding loans that have been delinquent for many years and it is highly unlikely that they will ever be collected.

Before June 1981, schools were not required to report loan delinquencies in any detail. Delinquencies were not aged nor could delinquency rates be computed from the information included in the annual operating reports. As a result, agency officials were unable to estimate the extent to which loans might be uncollectible and consequently should be written off.

Most importantly, as discussed on pages 13 and 14, until October 1980 the program guidelines erroneously stated that loans deemed uncollectible could not be written off until the end of the loan program. Most schools were following the guidelines and did not request permission to write off uncollectible loans. Although Department officials had known for several years that the program guidelines were incorrect, they did not inform participating schools until new guidelines were issued in October 1980. The new regulations allowed schools to submit a loan for writeoff as soon as it was determined to be uncollectible. Nevertheless, most schools continued to submit few if any loans for writeoff. HHS officials did not encourage schools to submit uncollectible loans for writeoff, even though these loans contributed to overstating the loans receivable balance for the programs.

The loans receivable balance was further overstated because the Department had not established an allowance for loans that will be canceled or become uncollectible in the future. In response to the emphasis that we and the Office of Management and Budget have placed on debt collection, HHS established an allowance account for those student loans for which collection is doubtful. However, it had not begun to collect data on past loan defaults in order to project future uncollectibles, nor had it analyzed possible future loan cancellations. Instead, the allowance account merely showed a zero balance. Until the Department estimates the amount of loans that will be canceled and determined uncollectible, the loan receivable balance will continue to be overstated and the correct balance of the loan funds will be unknown.

LIABILITY BALANCE IS INACCURATE

The Department further compounded the inaccuracy of its accounting records by not recording as a liability \$3 million owed to participating schools. According to HHS officials, this amount represents the schools' share of loans that have been canceled over the past several years.

As discussed on page 2, loans can be canceled in certain situations, such as the borrower practicing in an area designated as a shortage area. In accordance with program regulations, the Department is to reimburse the schools for their portion of the canceled loans. Also, as mentioned previously, the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 3511, 3512) places the responsibility for full disclosure of Government financial operations upon the head of each agency. In this regard, our title 2 specifies that "incurred liabilities shall be accounted for and reported in the period in which incurred irrespective of whether funds are available or authorized for their payment." The \$3 million due the schools is a legal obligation the Federal Government must pay. The Department, however, has not recorded the liability in its accounting records or established a contingent liability for future amounts that may have to be repaid to the schools.

Department officials indicated that they were aware of the requirement to record the \$3 million as an obligation. But since funds were not available, they were concerned that recording the amounts could constitute a violation of the Anti-Deficiency Act (31 U.S.C. 1341). This act prohibits officers and employees of the Government from incurring obligations or making expenditures that would create deficiencies in appropriations. We are studying this matter and will report separately if we determine that a violation of the act has occurred.

#### AGENCY ACTIONS

Department officials acknowledged that the accounting records were not accurate and did not show the current financial status of the loan programs. They stated that actions are underway and others are planned to correct these problems. They said that the amount owed to the schools for loans that have been canceled will be recorded in the accounting records as a liability to the Federal Government. Further, they said that the other accounting problems identified will be corrected and the appropriate entries made to the accounting records during fiscal 1983.

#### CONCLUSIONS

The Department's accounting for the Health Professions and Nursing Student Loan Programs needs strengthening. Accounting records do not reflect the current status of program funds and cannot be relied on for effective management of the programs. The accounting and reporting problems we identified indicate a need for more management emphasis on full disclosure of operating results. Accurate recording and reporting of loans receivable, interest income, fund transfers, and uncollectible loans are essential if the financial position of the two programs is to be fairly presented, and the Government's financial interests protected.

## RECOMMENDATIONS

We recommend that the Secretary of Health and Human Services:

- Record the Government's portion of canceled loans in the Department's accounting system.
- Determine and record the Government's portion of interest earned on loans.
- Adjust the accounting records to accurately reflect the amount of program funds transferred to the scholarship funds, and vice versa.
- Establish an allowance for those loans that will be canceled or considered uncollectible in the future.
- Record as a liability to the Government the amount owed to schools for loans that have been canceled.

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## United States Senate

COMMITTEE ON  
 GOVERNMENTAL AFFAIRS  
 SUBCOMMITTEE ON ENERGY, NUCLEAR  
 PROLIFERATION AND GOVERNMENT PROCESSES  
 WASHINGTON, D.C. 20510

November 4, 1981

The Honorable Charles Bowsher  
 Comptroller General of the United States  
 United States General Accounting Office  
 441 G Street, N.W.  
 Washington, D.C. 20548

Dear Mr. Bowsher:

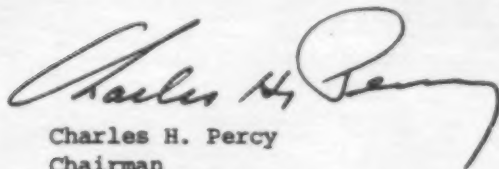
Through discussion with staff from your accounting and financial management division, it has come to my attention that there are problems with timely repayment of loans made to students under the Health Professions and Nursing Students Federal Capital Contribution Loan Program. According to your staff, some schools participating in the program are not diligently pursuing the collection of the loans, and the Department of Health and Human Services, responsible for administering the program, has not taken aggressive actions to assure that they do.

I have a long-standing interest in improving the federal government's debt collection performance, and I would like for you to advise me on how the collection of the loans awarded under this program can be improved. Specifically, I would like to know:

1. What is the delinquency rate for these programs in each of the participating schools? What is the delinquency rate for the entire program?
2. How many students are delinquent nation-wide, and what is the total dollar amount involved?
3. Does the federal government have the authority to compel the school to carry the loss for an uncollectable loan, if the school has not aggressively pursued the debtor?
4. Can the federal government deny a school further participation in the program if the school does not exercise due diligence in collecting the loans from students?
5. What recommendations can you make for improving management of this program?

I am planning to hold a hearing on this program in early December.  
I request that GAO be prepared to testify at that time.

Sincerely,

A handwritten signature in cursive script, reading "Charles H. Percy". The signature is fluid and stylized, with the first and last names being more prominent than the middle initial.

Charles H. Percy  
Chairman

CHP:age

SCHOOLS INCLUDED IN GAO'S REVIEW OF THE  
HEALTH PROFESSIONS AND NURSING  
STUDENT LOAN PROGRAMS

Boston College  
Boston University  
Georgetown University  
Harvard University  
Howard University  
Indiana University  
Loyola University  
Northeastern University  
Northwestern University  
Oregon State University  
Pacific Lutheran University  
Philadelphia College of Osteopathic Medicine  
Temple University  
Thomas Jefferson University  
Tufts University  
University of Chicago  
University of Iowa  
University of Oregon  
University of Pennsylvania  
University of Pittsburgh  
University of Washington  
University of Wisconsin-Madison  
Washington State University

## PROBLEMS GAO IDENTIFIED BY SCHOOL

|                                                 | Lost and<br>incomplete<br>promissory<br>notes | Exit<br>interviews<br>not<br>conducted | Borrowers<br>not<br>properly<br>billed | Inadequate<br>followup on<br>delinquent<br>loans | No<br>written<br>procedures | Not using or<br>rarely using<br>collection<br>agencies | Not<br>using<br>credit<br>bureaus | Not<br>using<br>litigation | Inadequate<br>record<br>keeping | Investing<br>of<br>program<br>funds | Retaining<br>earned<br>interest<br>income |
|-------------------------------------------------|-----------------------------------------------|----------------------------------------|----------------------------------------|--------------------------------------------------|-----------------------------|--------------------------------------------------------|-----------------------------------|----------------------------|---------------------------------|-------------------------------------|-------------------------------------------|
| Boston College                                  | X                                             | X                                      |                                        | X                                                |                             | X                                                      | X                                 | X                          | X                               | X                                   | 1/<br>X                                   |
| Boston University                               | X                                             | X                                      |                                        |                                                  |                             | X                                                      | X                                 | X                          | X                               | X                                   | X                                         |
| Georgetown University                           |                                               | X                                      |                                        | X                                                |                             | X                                                      | X                                 | X                          | X                               | X                                   | X                                         |
| Harvard University                              |                                               | X                                      |                                        | X                                                | X                           | X                                                      | X                                 | X                          | X                               | X                                   | X                                         |
| Howard University                               |                                               | X                                      | X                                      | X                                                | X                           | X                                                      | X                                 | X                          | X                               | X                                   | X                                         |
| Indiana University                              |                                               | X                                      |                                        | X                                                |                             | X                                                      | X                                 |                            | X                               | X                                   | X                                         |
| Loyola University                               | X                                             | X                                      |                                        | X                                                | X                           | X                                                      | X                                 | X                          | X                               | X                                   | X                                         |
| Northeastern University                         | X                                             | X                                      |                                        | X                                                | X                           | X                                                      | X                                 | X                          | X                               | X                                   | X                                         |
| Northeastern University                         | X                                             | X                                      |                                        | X                                                | X                           | X                                                      | X                                 | X                          | X                               | X                                   | X                                         |
| Oregon State University                         | X                                             | X                                      |                                        | X                                                |                             | X                                                      | X                                 | X                          | X                               | X                                   | X                                         |
| Pacific Lutheran University                     | X                                             |                                        | X                                      | X                                                |                             | X                                                      | X                                 |                            | X                               |                                     |                                           |
| Philadelphia College of<br>Osteopathic Medicine |                                               | X                                      | X                                      |                                                  | X                           | X                                                      | X                                 | X                          | X                               |                                     |                                           |
| Temple University                               | X                                             | X                                      |                                        | X                                                | X                           | X                                                      | X                                 | X                          | X                               |                                     |                                           |
| Thomas Jefferson University                     |                                               | X                                      | X                                      |                                                  |                             | X                                                      | X                                 | X                          | X                               | X                                   |                                           |
| Tufts University                                |                                               | X                                      |                                        | X                                                | X                           | X                                                      | X                                 |                            | X                               |                                     |                                           |
| University of Chicago                           |                                               | X                                      | X                                      | X                                                | X                           | X                                                      | X                                 | X                          | X                               | X                                   | 2/<br>X                                   |
| University of Iowa                              |                                               | X                                      | X                                      | X                                                | X                           | X                                                      | X                                 | X                          | X                               | X                                   | X                                         |
| University of Oregon                            | X                                             | X                                      | X                                      | X                                                | X                           | X                                                      | X                                 | X                          | X                               | X                                   | X                                         |
| University of Pennsylvania                      | X                                             | X                                      | X                                      |                                                  | X                           | X                                                      | X                                 | X                          | X                               |                                     |                                           |
| University of Pittsburgh                        |                                               | X                                      |                                        | X                                                | X                           | X                                                      | X                                 | X                          | X                               |                                     |                                           |
| University of Washington                        |                                               | X                                      | X                                      | X                                                | X                           | X                                                      | X                                 | X                          | X                               | X                                   | X                                         |
| University of Wisconsin                         |                                               | X                                      | X                                      | X                                                |                             | X                                                      | X                                 | X                          | X                               | X                                   | X                                         |
| Washington State University                     | X                                             | X                                      |                                        |                                                  |                             |                                                        |                                   |                            |                                 |                                     |                                           |

1/Returns part of the earned interest income to the program funds.

2/Returns eight-ninths of the earned interest income to the program funds.

1981 HEALTH PROFESSIONS AND  
NURSING STUDENT LOAN PROGRAM  
DELINQUENCY RATES BY DOLLARS

(note a)

|                                                 | Loans in<br>repayment<br>(millions) | Delinquent<br>principal<br>outstanding<br>(thousands) | Delinquency<br>rate<br>(percent) |
|-------------------------------------------------|-------------------------------------|-------------------------------------------------------|----------------------------------|
| Boston College                                  | \$0.3                               | \$ 115                                                | 38.3                             |
| Boston University                               | 2.3                                 | 1,131                                                 | 49.2                             |
| Georgetown University                           | 2.8                                 | 312                                                   | 11.1                             |
| Harvard University                              | 1.6                                 | b/ 535                                                | 33.4                             |
| Howard University                               | 3.1                                 | b/2,616                                               | 84.4                             |
| Indiana University                              | 3.9                                 | c/ 406                                                | 10.2                             |
| Loyola University                               | (d)                                 | 477                                                   |                                  |
| Northeastern University                         | 0.7                                 | 48                                                    | 6.9                              |
| Northwestern University                         | 2.6                                 | c/ 162                                                | 6.3                              |
| Oregon State University                         | 0.5                                 | 53                                                    | 10.6                             |
| Pacific Lutheran University                     | 0.2                                 | b/ 11                                                 | 5.5                              |
| Philadelphia College<br>of Osteopathic Medicine | (e)                                 | (e)                                                   | (e)                              |
| Temple University                               | 2.4                                 | c/ 493                                                | 20.6                             |
| Thomas Jefferson University                     | 0.4                                 | 39                                                    | 9.8                              |
| Tufts University                                | 2.9                                 | b/ 395                                                | 13.6                             |
| University of Chicago                           | 0.1                                 | 4                                                     | 4.0                              |
| University of Iowa                              | 3.0                                 | 235                                                   | 7.8                              |
| University of Oregon                            | 2.7                                 | b/ 213                                                | 7.8                              |
| University of Pennsylvania                      | 4.9                                 | 762                                                   | 15.6                             |
| University of Pittsburgh                        | 3.7                                 | 736                                                   | 19.9                             |
| University of Washington                        | 3.5                                 | 727                                                   | 20.7                             |
| University of Wisconsin-<br>Madison             | 4.2                                 | b/1,178                                               | 28.0                             |
| Washington State University                     | 0.9                                 | 132                                                   | 14.6                             |

a/Based on information reported by the schools as of June 30, 1981.

b/Includes "other"—not specified.

c/Includes delinquent borrowers 1 to 89 days past due.

d/Medical statistics not available.

e/Not reported.

1981 HEALTH PROFESSIONS ANDNURSING STUDENT LOAN PROGRAMDELINQUENCY RATES BY NUMBER OF STUDENTS

(note a)

|                                                 | Borrowers<br>in "<br><u>repayment</u> | Delinquent<br><u>borrowers</u> | Delinquency<br>rate<br><u>(percent)</u> |
|-------------------------------------------------|---------------------------------------|--------------------------------|-----------------------------------------|
| Boston College                                  | 510                                   | 169                            | 33.1                                    |
| Boston University                               | 1075                                  | 568                            | 52.8                                    |
| Georgetown University                           | 1885                                  | 145                            | 7.7                                     |
| Harvard University                              | 664                                   | a/ 189                         | 28.5                                    |
| Howard University                               | 1704                                  | b/ 1,133                       | 66.5                                    |
| Indiana University                              | 1918                                  | c/ 266                         | 13.9                                    |
| Loyola University                               | 1547                                  | 265                            | 17.1                                    |
| Northeastern University                         | 513                                   | 44                             | 8.6                                     |
| Northwestern University                         | 1042                                  | c/ 40                          | 3.8                                     |
| Oregon State University                         | 392                                   | 24                             | 6.1                                     |
| Pacific Lutheran University                     | 221                                   | b/ 14                          | 6.3                                     |
| Philadelphia College<br>of Osteopathic Medicine | 1348                                  | 64                             | 4.7                                     |
| Temple University                               | 1315                                  | b/ 242                         | 18.4                                    |
| Thomas Jefferson University                     | 487                                   | 45                             | 9.2                                     |
| Tufts University                                | 850                                   | b/ 92                          | 10.8                                    |
| University of Chicago                           | 12                                    | 1                              | 8.3                                     |
| University of Iowa                              | 2089                                  | 105                            | 5.0                                     |
| University of Oregon                            | 1538                                  | a/ 117                         | 7.6                                     |
| University of Pennsylvania                      | 2127                                  | 234                            | 11.0                                    |
| University of Pittsburgh                        | 1615                                  | 263                            | 16.3                                    |
| University of Washington                        | 1926                                  | 402                            | 20.9                                    |
| University of Wisconsin-<br>Madison             | 2984                                  | a/ 709                         | 23.8                                    |
| Washington State University                     | 651                                   | 53                             | 8.1                                     |

a/Based on information reported by the schools as of June 30, 1981.

b/Includes "other"—not specified

c/Includes delinquent borrowers 1 to 89 days past due.

PROPOSED AMENDMENTS TO 42 U.S.C. 294n and 297b  
TO AUTHORIZE SCHOOLS TO IMPOSE AN ADDITIONAL PENALTY  
ON DELINQUENT HEALTH PROFESSIONS AND NURSING STUDENT LOANS

Section 294n(j) of 42, United States Code, should be amended to read as follows (new language underlined, deleted language bracketed):

"Penalty for late payment"

"(j) [Subject to regulations of the Secretary, a] A school may assess a charge with respect to a loan made under this subpart for failure of the borrower to pay all or any part of an installment when it is due and, in the case of a borrower who is entitled to deferment of the loan under subsection (c) of this section or cancellation of part or all of the loan under subsection (f) of this section, for any failure to file timely and satisfactory evidence of such entitlement. The amount of any such charge may not exceed \$1 for the first month or part of a month by which such installment or evidence is late and \$2 for each such month or part of a month thereafter. The school may elect to add the amount of any charge to the principal amount of the loan as of the first day after the day on which such installment or evidence was due, or to make the amount of the charge payable to the school not later than the due date of the next installment after receipt by the borrower of notice of the assessment of the charge. A school may assess a penalty charge of 5 percent per month on an overdue installment for each month or portion thereof that such installment is more than 90 days overdue. The Secretary is authorized to prescribe regulations to carry out this section."

Section 297b(f) of 42, United States Code, should be amended to read as follows (new language underlined, deleted language bracketed):

"Penalty for late payment"

"(f) [Subject to regulations of the Secretary, a] A school may assess a charge with respect to a loan from the loan fund established pursuant to an agreement under this subpart for failure of the borrower to pay all or part of an installment when it is due and, in the case of a borrower who is entitled to deferment of the loan under subsection (b) (2) of this section or cancellation of part or all of the loan under subsection (b) (3) of this section, for any failure to file timely and satisfactory evidence of such entitlement. The amount of any such charge may not exceed

\$1 for the first month or part of a month by which such installment or evidence is late and \$2 for each such month or part of a month thereafter. The school may elect to add the amount of any such charge to the principal amount of the loan as of the first day on which such installment or evidence was due, or to make the amount of the charge payable to the school not later than the due date of the next installment after receipt by the borrower of notice of the assessment of the charge. A school may assess a penalty charge of 5 percent per month on an overdue installment for each month or portion thereof that such installment is more than 90 days overdue. The Secretary is authorized to prescribe regulations to carry out this section."